



FINANCING HIPC DEVELOPMENT

Declaration of the 8th HIPC Ministerial Meeting

Kigali, 29 April 2003

The eighth meeting of HIPC Finance Ministers took place on 28-29 April 2003 in Kigali, Rwanda, and was jointly organised by the implementing partners of the HIPC Capacity-Building Programme¹ and the Government of the Republic of Rwanda. It was opened by the President of Rwanda, H.E. Paul Kagame, and chaired successively by H.E. Donald Kaberuka, Minister of Finance and Economic Planning of Rwanda; H.E. Cheikh Hadjibou Soumaré, Minister of Budget of Senegal; and H.E. Augusto Ussumane Só, Minister of Economy and Finance of Guinea-Bissau. It was attended by 31 HIPCs, of which 14 were represented at Ministerial level, and the remainder by staff at Director-General level or above. Apologies for non-attendance were received from a further 5 HIPCs, due to IMF missions and budget debates in their countries. Ministers agreed on a 'Kigali Declaration' representing the 36 countries, which will be transmitted to all G8 and like-minded donor Ministers of Finance and Development, to the Managing Director of the IMF and the President of the World Bank. The Declaration will also be sent to heads of UN agencies and other international organisations.

Ministers reiterated their appreciation for the measures being taken by the international community to implement the Enhanced HIPC Initiative, to mobilise additional financing for development, to enable countries to implement poverty reduction strategies, and to enhance HIPC government capacity to manage development financing and poverty reduction programmes. They stressed once more their commitment to designing and implementing sustainable poverty reduction strategies, and to doing everything in their power to spend debt relief proceeds productively and transparently on poverty reduction. Nevertheless, they raised important common problems which require urgent attention if HIPC countries are to attain their Millennium Development Goals by 2015.

1. IMPLEMENTING HIPC II

1.1. Assuring Full Participation of Creditors

Ministers welcomed the recent progress in convincing some non-participating creditors to participate in the Enhanced HIPC Initiative, as well as the growing acknowledgement by the international community that non-participation of creditors is a severe problem for HIPCs. They urged the international financial community to:

- Establish as an urgent priority a rapid response legal technical assistance facility to help HIPCs to discourage or deal with creditor litigation. Ministers understood that the Bretton Woods Institutions perceived the management of such a facility as being incompatible with their wider roles, but insisted that legal technical assistance could be a key means to avoid litigation, as witnessed in their IDA commercial debt buybacks. They urged the international community immediately to identify an appropriate institution which could manage such a facility;
- Continue to publish the details of creditors that are refusing to provide relief on Paris Club-comparable terms. HIPCs committed themselves to publishing all the details of such creditors and to working with international organisations and civil society to exercise moral suasion on such creditors;
- Complete studies on the wider use of the IDA commercial debt reduction facility within the next two months and agree on its replenishment by the time of the IMF-World Bank Annual Meetings;

¹ BEAC/BCEAO Pôle-Dette, CEMLA, Debt Relief International, MEFMI and WAIFEM.

- Agree firmly to the principle of creating of a Trust Fund for clearing HIPC debts to other HIPCs by the time of the G8 summit at Evian, so that all preparatory work, including details of modalities and consultations with creditor HIPCs, can be completed, and funding pledges can be mobilised at the IMF-World Bank Annual Meetings.

1.2. Reinforce Long-Term Debt Sustainability

Ministers welcomed the preparation by BWI staff of a paper on long-term debt sustainability. They urged that the study and wider international discussions should examine the following issues:

- Including 'likely shocks' such as commodity price volatility, natural disasters and aid shortfalls in the baseline macroeconomic scenarios of BWI programmes;
- Accelerating independently-run capacity-building efforts for HIPCs so that they develop within the next 12-24 months the ability to project multiple macroeconomic scenarios;
- Treating bilateral debt cancellations beyond 90% as genuinely 'additional' relief, in order to reduce HIPC debt burdens well below HIPC thresholds and provide a safety margin to protect against potential shocks;
- Providing PRGF loans on IDA terms;
- Building into funding agreements from all external sources, especially those of the IMF, MDBs and EU, provisions for floating tranches of contingency finance which can be disbursed immediately to compensate against shocks;
- Accelerating the implementation of the recommendations of the World Bank Task Force on Commodity Risk Management;
- Focussing PRSPs on export diversification into higher value-added products, combined with opening markets for such products by OECD countries.

Ministers underlined three recommendations:

- That PRGF programmes should NOT contain alternative scenarios that do not envisage reaching the Millennium Development Goals. Any baseline scenario should assure the attainment of the MDGs, and alternative scenarios should show how to attain these in spite of shocks;
- That debt sustainability beyond the completion point should not be judged rigidly on the basis of PV/export ratios. Higher aid flows should be accommodated even if they lead to higher PV ratios, provided that debt service/budget revenue ratios remain sustainable;
- That all future debt sustainability analyses and PRGF documents should examine the total (domestic + external) debt burdens of HIPCs, and that the international community should give enhanced priority to resolving domestic debt problems, which are severely constraining the private sector, growth prospects and therefore the sustainability of external debt – without implying that HIPC funds should be spent on relieving such debts.

2. FINANCING FOR DEVELOPMENT

2.1. Financing Needs and Global Initiatives

Ministers welcomed recent initiatives to expand more significantly financing for development. In particular, they:

- Endorsed the UK proposal for an International Financing Facility (IFF), while urging that its funding should be fully additional and channelled to grants;
- Endorsed the creation of new global financing initiatives, such as the Education for All Fast Track Initiative, the Global Fund to Fight AIDS, Tuberculosis and Malaria and the Global Environment Facility. However, they stressed the need for these funds to mobilise fully additional aid resources and to be sustainable over the long term;
- Underlined that all new financing facilities should co-ordinate these resources behind PRSPs and agree streamlined procedures and conditionalities through a genuine partnership with developing countries;
- Urged that all donor financing should be accompanied by measures to promote trade and investment opportunities for HIPCs.

Ministers reiterated their view that all BWI Board papers for country programmes should present the financing amounts and gaps for countries necessary to reach the MDGs and national development goals, working in cooperation with UN analyses as appropriate, in order to underline the need for additional resources from the international community.

2.2. Partnership to Improve Donor and Government Practices

Ministers discussed their difficulties in complying with donor procedures, and strongly recommended that donors and international institutions:

- Take immediate steps to simplify and harmonise procedures so as to expedite disbursements;
- Take greater account of national practices and capacities in aid management;
- Review the IDA graduation criteria to ensure HIPC countries can continue to have access to highly concessional funds in order to implement their poverty reduction strategies;
- Give preference to budget support;
- Decentralise decision-making and funding to their local embassies and resident offices.

With respect to donor co-ordination, Ministers supported the Strategic Partnership with Africa (SPA) to review best practices of coordination in individual African countries. However, they cited many other examples of best practice in donor coordination and of evaluation of donor practices by HIPCs themselves. They therefore urged greater participation of HIPC country experts in this SPA work, a rapid widening of the number of countries covered (to include HIPCs from other regions), initiatives for HIPCs to exchange best practices with one another, and continued high-level discussions on aid quality and policy with OECD Development Assistance Committee members. They also supported the principles set out at the Rome High-Level Forum on Harmonisation of Procedures and recommended their immediate implementation by preparing a detailed plan of action to include short-term, medium-term and long-term measures.

Ministers acknowledged that additional resources would require efforts on both sides to increase absorptive capacity in HIPCs. They indicated that large expenditure programmes are currently under-funded and could rapidly absorb additional money. Moreover they stressed that many HIPCs have already successfully implemented programmes such as decentralisation, MTEFs, financial accountability capacity building and procurement reform, which have dramatically increased their absorptive capacity in recent years. They suggested a programme to exchange information among HIPCs on such best practices.

3. POVERTY REDUCTION STRATEGIES

3.1. Streamlining Conditionalities

Ministers again regretted the delay in reaching decision and completion points under the HIPC Initiative. They indicated that failure to meet conditionalities rather than delay in finalising PRSPs has been the major reason for the delays in achieving HIPC Decision and Completion Points. While welcoming the reduction of the number of conditionalities in BWI programmes, they noted with concern that compliance with remaining conditions is being enforced without a margin of flexibility, that excessive new conditions continue to be introduced into programmes, and that funders continue to apply separate political conditionalities. They urged the BWIs to continue to reduce even further the number of structural conditions and limit the remaining conditions to those that are essential to growth and poverty reduction, and eliminate all micro-management of their economies.

Ministers reconfirmed their commitment to macroeconomic stability as a prerequisite for poverty reduction. They also recommended a much greater degree of flexibility in designing and implementing macroeconomic policy frameworks, so as to ensure adequate growth to reach the MDGs. They noted the need to distinguish between PRSPs as a successful process for involving civil society in national debates on how to reduce poverty, and the need to shift the focus of PRSPs towards accelerated economic growth. They also urged that PRSPs be more integrated with the national development programmes in order to ensure comprehensive and consistent policy formulation and implementation. They also recommended that programmes should take fuller account of shocks, in their design and their interpretation of country compliance.

To enhance the national PRSPs process, Ministers called for an intensive increase in efforts to build their national capacity to design and analyse the impact of macroeconomic policies on poverty reduction, including the provision of analytical tools.

Finally, Ministers suggested that there should be a comprehensive annual review of PRSP/PRGF/PRSC programmes to ensure that the programme successfully streamlines conditionality and analyse poverty reduction prospects.

4. CONFLICT-AFFECTED COUNTRIES

Ministers expressed their concern over the specific difficulties faced by conflict-affected countries and made the following recommendations:

- More focus on reducing the ratios of debt service/exports and debt service/budget revenue in the early years when designing HIPC debt relief delivery;
- Additional resources to assist countries to clear arrears prior to their entry into HIPC;
- More flexibility of programme conditionalities to allow increased disbursements and more expenditure for reconstruction, reducing insecurity and refugees.

5. CAPACITY BUILDING REQUIREMENTS

Ministers agreed on a set of recommendations for reinforcing capacity-building efforts, which will be transmitted to the HIPC CBP Steering Committee and other international fora in due course.

Finally, Ministers agreed that a further briefing of HIPC Finance Ministers on progress would take place in Dubai at the time of the IMF and World Bank Annual Meetings.